

Full Cost Decision Memorandum: Closed Facility Cost Planning (SA-07)

Issue:

How does the Center recover the fixed costs associated with the closed facilities?

Source / reference:

LaRC Full Cost Implementation Team (2003-2004)
LaRC Office of the Chief Financial Officer (OCFO)

Background:

Center service pool managers are sometimes limited in their ability to reduce cost due to sustaining fixed costs of infrastructure support or civil service personnel. The ability to reduce costs should be based on the projected demand required for usage of the service. In that regard, service managers should ensure revenue is being recovered from customers to pay for service expenses. However, some services include high fixed costs due to current facility and labor operations. When such services, close facilities, the Center needs a mechanism to pay for any remaining fixed costs of the closed facilities.

Options:

1. Retain any fixed costs after service reductions in the service pool costs and rates
2. Shift remaining fixed costs after service reductions to Center G&A

Decision:

Option 2 with the following clarifications. Service managers should take steps to ensure costs can be adjusted based on anticipated demand. However, it is recognized that some costs are fixed in the short-term due to high fixed costs associated with the remaining facilities and labor. The coverage of fixed costs for the closure of facilities may have a significant impact on Center resources. In that regard, the timing of such decisions must be considered. Managers of such closed facilities should present a plan to Center Management for eliminating as many costs as possible and determine what costs remain as fixed costs. Following such an analysis, Center management can determine what costs should be covered at the Center level using the investment account in G&A. In general, the Center will cover any out-year cost of closed facilities, but not current year costs unless such approval has been granted. Any current year costs should be considered in the facility planning rates to customers, unless special approval has been granted. Finally, this decision applies to closed/mothballed facilities, not facilities running partial year operations.

Approved by LaRC CFO (Ken Winter) 10/17/03
